V. INDUSTRY AND COMMERCE.

Review of American Stock Market.[1]—The period of lethargy through which the stock market passed has given way to one of remarkable activity. For the three months prior to the election the total number of shares of stock sold was 15,421,113, while the sales for October and November aggregated 33,460,419 shares. For the first two weeks of December the sales amounted to 8,244,504 shares; or a total of 41,704,923 since the election.

This enormous increase in the volume of business naturally resulted in enhanced values in securities. Taking a list of twenty-five of the most active stocks as a basis for calculations the stock market shows a gain of about fifteen points since November 3. Many securities have shown greater increase, especially among those in the highly speculative list, while the most conservative investment securities have shown advances of but three or four points.

During the early part of this month securities fell, due to a rise in the call-loan rate. The securities most affected were again the speculative list. This is again explained by the large increase in the volume of marginal trading, which is invariably present in a buoyant market.

Many writers have taken an extremely pessimistic view of the situation, and have their eyes focused upon a panic in the stock market. Although the rate of dividend upon the major portion of securities does not warrant a decided rise above present quotations, there are no elements in the situation at present which presage a panic, or even a marked fall in quotations.

When values do fall, those most affected will be the margin traders; the investor will not be frightened into selling, for he recognizes the fact that these occasional "slumps" are the result of a desire to buy on the part of the insiders.

Generally the situation is most gratifying. Aside from the fear of a rise in the call-loan rate there are no disturbing elements.

Our favorable balance of trade will bring gold to this country in case of stringency, and the Treasury will probably lend its assistance if the condition demands it.

The contemplated deal looking toward the combination of large coal interests, which is being superintended by J. P. Morgan & Co., will, if successful, result in an advance in the price of the securities of all the roads affected.

A feature of the present situation which is worthy of special mention is the increased demand for bonds. This is most encouraging, as

[1] Contributed by Mr. L. B. Wolf.

it clearly proves that the business man is making profits and desires a safe investment for them. He displays his wisdom by not speculating in securities about which he has but scanty knowledge. The presence of the conservative investor in the market is always reassuring.

Events in the Railroad World.[1]—There are certain movements which began over a year ago which must be explained and understood before the significance of recent events can be seen. Among the most conspicuous of these is the development of the "community of ownership" idea, which started with the deal between the Vanderbilts and the Pennsylvania Railroad, and is gradually spreading to all parts of the country. The first important result of this deal, which was for the purpose of controlling the railroad situation between Chicago and the Atlantic seaboard, was the ordering of a general advance in freight rates last January. This ranged from 10 to 15 per cent in many classes of traffic, and produced the greatest results in bituminous coal, which had long been carried at very small profit. The advance of this article ranged from fifteen to twenty-five cents a ton on all the Eastern lines, and when followed by the purchase of a large interest in three bituminous roads by the Pennsylvania Company, creating a sharp rise in the securities of all carriers of soft coal, it made possible dividends by many roads whose outlook was previously not bright.

The development of the community of ownership idea was instanced very prominently in November, when it became known that the Great Northern, the Union Pacific and the Northern Pacific railroads had made an alliance through an interchange of stock which will result in a cessation of competition and the abolition of needless expenses, including the consolidation of the competing Pacific steamship lines. It was evidenced again during the same month in the election of the first and third vice-presidents of the Pennsylvania Railroad to positions as directors of the Baltimore & Ohio. About the same time the Southern Railway bought the St. Louis Air Line, increasing its own mileage to 7,260 miles, and giving the shortest road by forty-three miles between Louisville and St. Louis. Early in November the New York Central absorbed the Boston and Albany by securing a lease for ninety-nine years. By the addition of 202 miles of main and 187 miles of branch and leased lines, the New York Central is now able to send its western freight directly in and out of Boston.

In no stronger way could this co-operation idea have been emphasized, however, than in the early part of December, when J. P. Morgan & Co., for the Erie Railroad, bought the Pennsylvania Coal Company, which was the backer of a projected new anthracite coal

[1] Contributed by Ferdinand H. Graser.

line to Kingston. With the purchase of this stock, the Erie became a coal owner as well as a coal carrier, and it would seem that the anthracite combine has fully secured itself in control. The entrance of James J. Hill, of the Great Northern, into the Erie directorate on the day following the purchase, opened the way for a coalition of interests between William K. Vanderbilt, J. Pierpont Morgan, A. J. Cassatt, Mr. Hill and James Speyer. The roads controlled by this coalition are the Baltimore & Ohio-Erie combination; the New York Central-Pennsylvania combination, which includes the Delaware & Lackawanna, the Reading and the Ontario & Western, among the anthracite coalers; and the Chesapeake & Ohio and Norfolk & Western among the bituminous roads, with the Southern Railway, the Lehigh Valley, New Jersey Central, and the Delaware & Hudson. From this time, the anthracite roads may be operated on a more economical basis. Under the control of a group of financiers, it will simply be a question of how much hard coal the market will absorb at uniform prices.

Community of ownership is the product of a natural evolution. Rates had been going lower and lower, and the laws will not allow railroads to pool traffic. The only alternative was for strong interests to secure a foothold in various properties. The year closed with a majority of railroad stocks at the highest point in their history.

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The death of Henry Villard, on November 12, removed another of the chiefs of the era of great railway construction. Under his presidency, the Northern Pacific was successfully financed to completion in 1883. A few months after this triumphal opening, the road suffered financial collapse, carrying down with it the president's fortune. But he retained the confidence of European investors, and six years later was again at the head of the property. The panic of 1893 again dragged the company down, and since then Mr. Villard has led comparatively a retired life as proprietor of the New York *Evening Post*.

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There was great outcry in September when the steel-rail trust fixed the price of rails at $26 a ton, and it was loudly proclaimed that railroads would not buy at that price. The Pennsylvania Railroad began the buying almost immediately, however, with an order for 50,000 tons, and there has been no cessation of orders, both large and small, since that time, at the price fixed.

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In the latter part of November the first cargo of Western grain by a new Canadian route was shipped from the Great Northern Railway elevator in Quebec, for Liverpool. By this route grain is brought from

Duluth by lake steamers to Parry Sound, on Georgian Bay, where it is taken out of the vessels at deep-water berths alongside an elevator of a million and a quarter bushels' capacity, and placed directly aboard cars for Quebec. Eight hundred miles of distance is thus cut off by diverting the grain from Buffalo and New York.

Exploitation of Stockholders.—Indications are accumulating that the stockholders of the recently formed industrials are to pass through the same ordeal of exploitation, which railway stockholders have so often experienced. When these companies were organized, two facts were brought forward in evidence of their financial strength and stability: (1) the large holdings of preferred stock by insiders, (2) their small indebtedness. These advantages possessed by the industrials were justly considered of great value. Without a bonded debt they could not become insolvent, and the interests of the preferred stockholders could be served in no other way than by fair, wise and honorable management. Since the election, however, the insiders, that is to say, those who were prominent in organizing the industrials, and who from their experience and standing, as well as on account of their stockholdings, have been retained in control, have very generally unloaded their preferred stock upon the unsophisticated public, thus destroying one safeguard against interested mismanagement. At the same time there is abundant talk of bond issues for extensions and improvements. The recent purchase of 75,000 acres of coal lands in Southwestern Pennsylvania is reported to have been on account of the steel trust, the purchase price having been in some cases four times the face of the option, and although it cannot be proven, past experience inclines strongly to the opinion that those in control of the company were active on both sides of the transaction. A more apparent operation was the attempt of Mr. John W. Gates, and his associates in the control of the American Steel and Wire Company, to secure a large issue of bonds for the purpose of purchasing from them a fleet of ore boats at a price which, it has been proven, was more than twice their cost to the promoters of the transaction. Reports of similar transactions are heard in reference to other companies. These operations have for their object the enriching of directors and their friends at the expense of the general body of stockholders. Those in control take advantage of their position of trust and responsibility to mulct the owners and endanger the company. The result is that corporations thus maltreated are burdened with debt for which no adequate equivalent in increased earning power is obtained. If persisted in, such practices inevitably lead to bankruptcy. The over-capitalization of many American railroads, which has been the most important factor in producing our several

epidemics of railway receiverships, was directly due to similar practices during their construction. Many of the roads were compelled to pay large sums of interest on bonds, the proceeds from which had gone, not into capital construction, as the stock and bondholders had a right to expect, but into the pockets of construction companies composed of promoters, directors and their friends and associates. Such practices are now generally frowned upon by reputable financiers. The investment interest in railways has grown so strong that speculative transactions of all kinds are severely reprobated and heavily punished wherever detected. Established industries are conducted in the light of day. Their reports are frankness itself. No suspicion of speculative transactions, "inside" manipulation, attaches to their directors. The recently formed corporations, however, are repeating the early misdeeds of the railroads. They began by exploiting the common stockholder. Unless checked by the pressure of financial opinion, they will end in insolvency and reorganization, out of which their directors will reap a rich harvest. In conclusion, the following quotation from the *Railroad Gazette* of April 21, 1892, is precisely in point. It applies to the duties and responsibilities of railway directors, but can be also applied with equal justice to the industrials:

"The position of director in any company whose enterprise involves extensive contracts for construction or supplies, is one of peculiar temptation. The opportunities and inducements for manipulating the plans and contracts of the company, in such ways as to realize a profit to oneself, instead of laboring solely for the company's interest, are often too great for human integrity. The instances have been numerous, as every one acquainted with the history of railway building knows, in which the original company has been squeezed, bled, nay, eviscerated by its own directors, they pretending to negotiate contracts or make leases or sales on behalf of their stockholders, while they have themselves been the active men to profit in various concealed ways, by the arrangements they have made. The course of decisions in the courts shows that such devices have little strength to resist an earnest legal investigation; that the law has more power than injnred stockholders may suppose to overthrow such schemes, and restore the assets to their rightful owners. . . . The general principle has been applied to railroad directors specifically in many instructive cases and under a variety of circumstances. The duty of such director to act for the benefit of the company and as its representative has been repeatedly recognized. He cannot become individually interested in a construction contract on the roads, nor in a purchase of property which he ought to buy for the company; and if he makes a contract

on behalf of the company, in which he reserves or afterwards acquires an individual interest, such contract may be repudiated on behalf of the company."

It is to be hoped that the example of the stockholders with the American Steel and Wire Company, in thwarting the designs of Mr. Gates and his associates, and reducing the price to be paid for the ore fleet, will be generally followed to the great gain of the companies whose stockholders are thus prepared to assert their rights. E. S. M.

Difficulties in the Way of American Export Trade.—The success of the United States in the export trade has been due to two factors, (1) cheap and abundant raw materials, (2) low cost of production due (*a*) to the larger use of machinery, (*b*) to the energy and initiative of American workmen, and (*c*) to the relatively small share of the product, as compared with English wages, which American workingmen have been content to receive. It is not to be expected that these advantages over our foreign competitors will continue in their present degree. Our supremacy in raw materials is already passing from us. Take iron for example. The richer ores of the Lake Superior region are approaching exhaustion and the lean ores are being resorted to. Furnace men have accepted the situation and are everywhere lowering their requirements. Then, too, the increasing vogue of the open-hearth process in the United States signalizes the descent to a lower grade of iron ore. Europe has abundant supplies of non-Bessemer ores, and on this account the United States is destined to lose this point of advantage. American coal, as compared with foreign coal, has recently risen in price. The unrestricted competition in the bituminous coal trade which has been of such great benefit to manufacturers has been stopped by the consolidation of the coal roads and the purchase by allied interests of large areas of coal land. Recent evidence of the effectiveness of this limitation of competition is afforded by the difficulty which the bituminous operators experience in getting cars for shipment to markets which are congested. At the same time, the prices of foreign coals are rapidly declining, showing that the recent advance was due to abnormal conditions not likely soon to be repeated. Our exports of breadstuffs and meat products tend to decline as our increasing urban population increases the domestic demand for foodstuffs. A smaller surplus at a higher cost is thus available for export, while Argentine, Australia and Russia are increasing their consignments to European markets. Our exports of lumber products must soon decrease with the exhaustion of our timber supply. Our export of petroleum is threatened by the increasing yield from the Russian oil fields. The only raw materials in which our present advantage promises to endure are cotton and

copper. The United States is no longer a new country and must rely more largely upon manufactures to fill up the measure of her export trade.

In manufactures again our present advantages over our competitors cannot endure. American machines and methods are already being generally copied by foreign producers, and our monopoly of mechanical excellence we cannot hope to retain. Especially in the field of transportation is this equalization of advantage to be remarked in the rapid introduction of American locomotives and handling machinery on foreign railways.

American labor is demanding a larger share in the product. The growing power of labor unions is everywhere manifest, and in spite of the consolidation of capital, the growing disposition on the part of the labor leaders to demand higher wages threatens a general increase in the cost of production of American manufactures. The United States is passing into the era of labor wars from which Great Britain is just emerging, and the result of the conflict must lessen our international advantage.

By the foregoing it is not meant to affirm that our international advantage will disappear. The seat of the lowest cost of production will always remain, in all probability, in the United States. It is well, however, to recognize that the popular estimate of this advantage must be greatly qualified if a true conception of our future position in international trade is to be obtained. E. S. M.

Business Failures.—In the issue of January 26, "Bradstreet's" presents the statistics of failures in the United States and Canada for a series of years and classifies them according to credit ratings, liabilities, capital employed and primary causes of failure. A condensation of these tables is appended.

STATISTICS OF FAILURES IN THE UNITED STATES AND CANADA.

I. *Credit Ratings of Those Who Failed.*

	1894.		1897.		1900.	
	No.	Per Cent.	No.	Per Cent.	No.	Per Cent.
Total number failures	14,588	100	15,008	100	11,249	100
Number failing which had very moderate or no credit rating .	10,358	71	11,820	78.8	9,531	84.7
Number failing rated in good credit	4,005	27.4	3,004	20	1,558	13.9
Number failing rated in very good credit or higher	225	1.6	184	1.2	160	1.4

II. *Liabilities of Those Who Failed.*

	1894.		1897.		1900.	
	No.	Per Cent.	No.	Per Cent.	No.	Per Cent.
Total number failures	14,588	100	15,008	100	11,249	100
Total with less than $5,000	9,189	62.9	10,737	71.5	7,394	65.7
Total with $5,000 and over	5,399	37.1	4,271	28.5	3,855	34.3
Total with $5,000 to $20,000	4,011	27.5	3,688	24.6	2,817	25.1
Total with $20,000 to $50,000 . . .	886	6.1	398	2.6	649	5.8
Total with $50,000 to $100,000 . . .	270	1.9	106	.7	216	1.9
Total with $100,000 to $500,000 . .	209	1.4	68	.5	158	1.4
Total with $500,000 and over . . .	23	.2	11	.07	15	.1
Total with $1,000,000 and over . .	9	.06	5	. . . .	10	.08

III. *Capital Employed by Those Who Failed.*

	1894.		1897.		1900.	
	No.	Per Cent.	No.	Per Cent.	No.	Per Cent.
Total number failures	14,588	100	15,008	100	11,249	100
Total with $5,000 or less	12,936	88.7	13,351	91	10,595	94.2
Total with $5,000 to $20,000	1,103	7.6	1,134	6	374	3.4
Total with $20,000 to $50,000 . . .	370	2.5	326	2	160	1.4
Total with $50,000 to $100,000 . . .	111	.8	100	.6	62	.5
Total with $100,000 to $500,000 . .	60	.4	93	.4	51	.4
Total with $500,000 to $1,000,000 .	8	.05	4	.06	6	.05
Total with $1,000,000 and over . .	. . . .	. . . .	2	. . . .	1	.01

The evidence here presented appears to show that under normal conditions the individual or corporation of large capital and good credit has little to fear in the conduct of a business. The enormous preponderance of bankruptcy, in the number of those who fail, in their liabilities, and in the capital involved, is made up of those whose operations are conducted on a small scale. A caution should be interposed, however, in order that undue emphasis may not be placed upon the small number of failures when both capital and liabilities are large. One firm with $1,000,000 capital is equal to two hundred firms with $5,000 capital apiece, and in its consequences to general business the failure of one million dollar house is often more disastrous than the downfall of hundreds of small enterprises. Then, too, the reader must be cautioned against the unconscious inference from these tables that the number of houses of large capital is at all large in com-

parison with the total number of those in business. It is in fact an insignificant fraction. If the number of individuals, firms and companies with less than $5,000 capital could be compared with the number having capitals of $1,000,000 and over the chances of bankruptcy, as between large and small enterprises, might be more accurately determined. In the absence of such a computation it is unsafe to draw from the statistics presented the conclusion that the field of industry and trade is to be given over to the dominion of large capital.

A more instructive study is presented by the analysis of failures according to their primary causes.

Liabilities of Failures in the United States, including Territories, 1897–1900 ($000's omitted).

	1897.	Per cent.	1900.	Per cent.
Incompetence	$16,305	11.6	$16,998	13.1
Inexperience	2,325	1.	4,046	3.2
Lack of capital	37,447	22.9	30,231	2.4
Unwise credits	8,421	5.7	2,742	1.6
Failures of others	9,812	6.5	5,832	4.0
Extravagance	1,132	.8	1,230	.7
Neglect	1,603	.7	1,677	.8
Competition	4,392	2.3	3,582	2.4
Specific conditions	30,360	21.7	40,376	32.7
Speculation	8,072	5.8	4,813	3.2
Fraud	18,624	13.0	11,182	9.0

The following conclusions may be drawn from these figures:

1. The proportion of failures due to competition is exceptionally low. Contrary to general opinion the number of failures due to this cause is exceptionally small, only 2.3 per cent (in 1897) of the total, and it furthermore shows no decrease since the organization of the trusts has tended, as generally believed, to eliminate competition.

2. The general revival of small enterprise is evidenced by the considerable increase in the number of failures due to inexperience.

3. The incompetence of business men shows no decrease, but rather a considerable advance from 11.6 per cent of the total number of failures in 1897 to 13.1 per cent in 1900.

4. An easy money market is seen in the decrease in the number of failures due to lack of capital, and also an increase of confidence on the part of investors.

5. The claims of the trust promoters that combination decreases bad debts is vindicated by a decrease in the proportion of failures due to unwise credits from 5.7 per cent to 1.6 per cent of the total.

6. Speculation and fraud among business men, if we may judge from the decrease in the number of failures due to these causes, have greatly diminished.

7. Specific conditions, which means in general the state of the market, are responsible for the largest number of failures.

The classification by groups of states is also presented.

Liabilities of Failures Due to Various Causes by Groups of States, 1897–1900. ($000's omitted.)

	Incompetence.				Inexperience.				Lack of Capital.			
	1897.	Per ct.	1900.	Per ct.	1897.	Per ct.	1900.	Per ct.	1897.	Per ct.	1900.	Per ct.
Eastern	7,138	43.8	9,120	53.9	425	18.8	156	4.1	2,214	5.9	3,395	11.2
Middle	3,819	23.4	2,394	14.1	189	8.4	2,350	63.5	14,924	40.0	11,766	39.0
Southern	517	3.1	1,689	9.9	278	12.3	292	7.8	3,561	9.5	3,757	12.4
Western	3,290	20.2	1,960	11.5	711	31.5	457	12.2	12,228	32	7,157	23.7
Northwestern	993	6.1	1,146	6.7	624	27.7	435	11.7	2,762	7.4	2,603	8.4
Pacific	502	3.1	610	3.7	22	.9	26	.7	1,540	4.1	1,422	4.7

	Unwise Credits.				Failures of Others.				Extravagance.			
	1897.	Per ct.	1900.	Per ct.	1897.	Per ct.	1900.	Per ct.	1897.	Per ct.	1900.	Per ct.
Eastern	419	5	229	8.6	2,130	2	974	16.7	284	25.3	270	22.4
Middle	5,448	66	715	26.9	1,845	18.7	2,473	45.8	429	38	479	38.2
Southern	478	5.8	286	10.7	2,462	25.1	348	5.9	96	8.5	122	9.7
Western	824	10	463	17	1,517	15.5	610	10.4	233	20	264	21.9
Northwestern	985	11.9	953	35.5	847	8.5	323	5.3	67	5.9	28	2.2
Pacific	74	.9	7	.2	958	9.7	901	15.3	11	.9	83	6.6

	NEGLECT.				COMPETITION.				SPECIFIC CONDITIONS.			
	1897.	Per ct.	1900.	Per ct.	1897.	Per ct.	1900.	Per ct.	1897.	Per ct.	1900.	Per ct.
Eastern	348	22.0	267	16.9	1,764	37.8	2059	56.1	5,670	11.3	2,845	7.0
Middle	335	20.7	700	43.7	1,232	26.7	549	15.3	14,342	28.4	28,978	71.6
Southern	347	22	145	8.7	266	5.8	105	2.7	8,580	7.0	4,531	11.2
Western	262	16.3	270	16.8	255	5.4	429	12.0	10,797	21.4	2,475	6.1
Northwestern	207	13.2	194	11.8	96	1.9	38	1.1	7,599	15.1	794	1.9
Pacific	92	5.7	21	1.2	975	21.1	397	11.0	3,218	6.4	798	1.9

	SPECULATION.				FRAUD.			
	1897.	Per ct.	1900.	Per ct.	1897.	Per ct.	1900.	Per ct.
Eastern	1,618	20.2	2,653	24.8	8,543	46.4	3,717	39.0
Middle	3,068	38.3	7,210	67.9	3,531	19.2	2,528	26.5
Southern	1,227	15.3	329	3.1	2,255	12.2	1,015	10.6
Western	1,285	16.4	113	1.0	2,076	11.3	989	10.3
Northwestern	420	5.2	205	1.8	1,173	6.3	801	8.4
Pacific	390	4.8	102	1.0	788	4.3	480	5.0